MONEGENIX®

Nest Egg and Chill

In Times of Uncertainty…

Through A Custom, High Cash Value, Whole Life Insurance Policy

Learn how high cash value whole life insurance empowers policyholders to act boldly, even in times of uncertainty, by shifting financial risk away from the policyowner to a mutually owned life insurance company.

Updated: May 1, 2020

Times of Uncertainty

Recent events have brought unprecedented uncertainty to many of our lives. We are re-evaluating what's most important and making adjustments to our daily lives and financial planning. I am the owner of Monegenix®, a licensed life insurance advisor, and a Registered Financial Consultant (RFC). My career revolves around helping clients identify, manage, and reduce financial risk through whole life insurance and other insurance-based financial planning strategies. I have had the great fortune to work with a broad variety of business owners, individuals and families with insurance-based financial planning.

Monegenix® is a privately-owned independent digital insurance agency specializing in insurance-based financial planning (financial planning which utilizes life insurance, annuities, and disability insurance). We provide free and paid educational material, financial apps, and calculators to help individuals *make better financial decisions*. Insurance-based financial planning incorporates insurance product design with a unique type of financial plan that is designed to solve specific client problems and challenges. It is an integrated approach that considers an individual's current financial status, current and future financial goals, risk tolerance, risk capacity, and current and future expected financial resources.

One of the most common challenges that we address is retirement planning. What follows is our case study, *Nest Egg and Chill*. It illustrates how a custom, high cash value whole life policy can provide an individual with a comfortable retirement, more financial security, and a more stable return on savings while reducing or eliminating the risks inherent in traditional investment strategies.

If you have questions about this case study, please don't hesitate to contact me at https://www.monegenix.com/contact-monegenix/.

Nest Egg and Chill:
Getting More Out of a Retirement Plan Using Whole Life Insurance

Objective

Tim came to me with a common, but also difficult-to-solve, problem. He and his wife wanted a safe and secure place to save money but wasn't totally satisfied with the available options in the marketplace. He had some investments but was concerned about their volatility and also the taxes on those investments in retirement.

On top of this, Tim is self-employed. This creates a lot of opportunity, but also a lot of risk — risk that's not easy to plan for.

Goals

Tim wants a stable, safe, and secure retirement plan. Since part of his money was in nonguaranteed and volatile investments, he wants to ensure that any market corrections don't wipe out his nest egg or compromise his long-term financial security.

Solution

After carefully analyzing his financial situation, I structured a policy that would protect him from stock market corrections. During a market correction, Tim can draw money from his policy's cash values, allowing his investments to recover. Then, when his non-guaranteed investments have recovered sufficiently, he can draw money from his retirement accounts, take some money from his investments and replenish money he took from his policy, or continue using his whole life policy to provide a stable income for himself and his wife.

Tim's Story

On the surface of it, Tim's problem seems simple: find a safe place to store cash and then let that savings grow over time in a safe, consistent, reliable way. But, the problem Tim faced was the uncertainty of future government regulation and how that might impact his investments and the economy (and his work) and also the future taxes he'd have to pay on the money sitting in his retirement account.

In Tim's words:

> *"Biggest problem I was having was finding somewhere to put my savings where it would be as safe from thieving bureaucrats as possible while still realizing some kind of growth. I'm pissed. Still am, but less so than before. Life insurance as it exists today is undoubtedly a pale imitation of what it could be in a free market, but in terms of safety (and other utility), it's the best option I've discovered so far.*
>
> *"There's still a lot I need to understand about how life insurance works as a long-term savings vehicle, but for now I'm at least satisfied that some of my money is a little safer from theft and wildly arbitrary taxation.*
>
> *"It's too early to tell, but I'm cautiously optimistic. I'm currently putting about 20% of my savings into life insurance, with the rest split between precious metals, investments, and traditional retirement accounts.*
>
> *"I wish life insurance could offer a better rate of return, but with an out-of-control pirate state sailing the financial seas, pillaging with impunity, I'm happy to have some measure of safety, even if it means giving up a lot of potential profit."*

When clients look at whole life insurance, they tend to think about it as a conservative investment with a low rate of return. However, in Tim's case, that conservative asset protects him in a very important way.

How?

Tim puts 80% of his money into investments of various kinds. Some of those investments are in traditional retirement plans which are invested in stocks or equity mutual funds, and some are in non-traditional investments, including precious metals. With only 20% of his money going towards whole life insurance, it's difficult to see how his policy could possibly make any sort of difference in his financial life.

But… looking a bit closer at this issue reveals a surprising aspect of life insurance as an asset.

Tim's tentative plan is to retire at age 67. We assumed his investments in the stock market grew to about $3,000,000 by then. So far, so good.

In retirement, Tim needs 2 things from those investments: growth and income. But, he also has to accept market volatility as part of the package. This creates an interesting problem for Tim and his wife. If he draws income from his investments in a down year, it can dramatically impact his future savings and income.

For example:

YR	AGE	HYPOTHETICAL MARKET RETURN	INVESTMENT ACCT PRE-TAX WITHDRAWAL	INVESTMENT ACCT AFTER-TAX NET INCOME	END OF YEAR BALANCE
36	67	27.25%	$300,000.00	$204,000.00	$3,435,750.00
37	68	-6.56%	$306,000.00	$208,080.00	$2,924,438.00
38	69	26.31%	$312,120.00	$212,242.00	$3,299,619.00
39	70	4.46%	$318,362.00	$216,486.00	$3,114,221.00
40	71	7.06%	$324,730.00	$220,816.00	$2,986,429.00
41	72	-1.54%	$331,224.00	$225,232.00	$2,614,315.00
42	73	34.11%	$337,849.00	$229,737.00	$3,052,969.00
43	74	20.26%	$344,606.00	$234,332.00	$3,257,078.00
44	75	31.01%	$351,498.00	$239,019.00	$3,806,600.00
45	76	26.67%	$358,528.00	$243,799.00	$4,367,673.00
46	77	19.53%	$365,698.00	$248,675.00	$4,783,561.00

47	78	-10.14%	$373,012.00	$253,648.00	$3,963,319.00
48	79	-13.04%	$380,473.00	$258,721.00	$3,115,643.00
49	80	-23.37%	$388,082.00	$263,896.00	$2,090,130.00
50	81	26.38%	$395,844.00	$269,174.00	$2,141,239.00
51	82	8.99%	$403,761.00	$274,557.00	$1,893,678.00
52	83	3.00%	$411,836.00	$280,048.00	$1,526,298.00
53	84	13.62%	$420,072.00	$285,649.00	$1,256,893.00
54	85	3.53%	$428,474.00	$291,362.00	$857,662.00
55	86	-38.49%	$437,043.00	$297,189.00	$258,723.00
56	87	23.45%	$258,723.00	$175,932.00	$0.00

Tim can withdraw a pre-tax income of about $300,000 per year, adjusted for inflation (assumed to be 2% per year). The net after tax amount in his tax bracket (32% as of this writing) would be about $200,000.

At this rate, he runs out of money by age 87… which is fine if Tim and his wife dies before then but what if they live?

This is no good.

What if we assumed his retirement plan assets grew to $5,000,000? I ran that scenario using the same investment return assumptions above and… his income carried him out to age 100.

But… what if the investment returns were different than above? I re-ran the scenario several times and kept running into scenarios like this:

YR	AGE	HYPOTHETICAL MARKET RETURN	INVESTMENT ACCT PRE-TAX WITHDRAWAL	INVESTMENT ACCT AFTER-TAX NET INCOME	END OF YEAR BALANCE
36	67	-17.37%	300,000	204,000	3,718,350
37	68	-29.72%	306,000	208,080	2,398,200

38	69	31.55%	312,120	212,242	2,744,238
39	70	19.15%	318,362	216,486	2,890,430
40	71	-11.50%	324,730	220,816	2,270,645
41	72	1.06%	331,224	225,232	1,959,979
42	73	12.31%	337,849	229,737	1,821,814
43	74	25.77%	344,606	234,332	1,857,885
44	75	-9.73%	351,498	239,019	1,359,816
45	76	14.76%	358,528	243,799	1,149,078
46	77	17.27%	365,698	248,675	918,670
47	78	1.40%	373,012	253,648	553,297
48	79	26.33%	380,473	258,721	218,329
49	80	14.62%	218,329	148,463	0

Tim would run out of money by age 80. That's worse than the first scenario where we had less savings to play with and this scenario only assumes 4 market corrections in retirement, 2 of which are minor corrections.

The typical solution to this is kind of problem is to simply reduce withdrawals from the retirement account, but beyond age 70 1/2, the IRS forces the issue by setting a Required Minimum Distribution (RMD) amount on Tim's retirement accounts, based on Tim's life expectancy. So, the older he is, the more the IRS will force him to take from his investment accounts.

Another potential solution might be to use bonds or another fixed-interest investment. But, the major problem with bonds and other similar investments is that bonds have significant principal risk (risk of losing his principal amount) and also rollover risk (i.e. Tim cannot grow his bond portfolio over time to offset inflation and provide an effective hedge against his equity investments).

This is where Tim’s whole life insurance policy comes into play, allowing him to manage his income in a way that’s not possible with other assets. He can keep growing his life insurance cash values without principal or rollover risk, then draw down his investment account and then start taking withdrawals from his life insurance policy, like so:

YR	AGE	HYPOTHETICAL MARKET RETURN	INVESTMENT ACCOUNT PRE-TAX WITHDRAWAL	INVESTMENT ACCOUNT AFTER TAX NET INCOME	END OF YEAR BALANCE	INCOME FROM LIFE INSURANCE	NET CASH VALUE OF INSURANCE	NET DEATH BENEFIT OF INSURANCE	TOTAL INVESTMENT + INSURANCE CASH VALUE	TOTAL INVESTMENT + INSURANCE NET DEATH BENEFIT
36	67	27.25%	$300,000.00	$204,000.00	$3,435,750.00	$0.00	$1,842,649.00	$3,583,324.00	$5,278,399.00	$7,019,074.00
37	68	-6.56%	$306,000.00	$208,080.00	$2,924,438.00	$0.00	$1,950,931.00	$3,694,828.00	$4,875,369.00	$6,619,266.00
38	69	26.31%	$312,120.00	$212,242.00	$3,299,619.00	$0.00	$2,065,144.00	$3,810,435.00	$5,364,764.00	$7,110,054.00
39	70	4.46%	$318,362.00	$216,486.00	$3,114,221.00	$0.00	$2,185,532.00	$3,930,308.00	$5,299,753.00	$7,044,529.00
40	71	7.06%	$324,730.00	$220,816.00	$2,986,429.00	$0.00	$2,312,326.00	$4,054,552.00	$5,298,755.00	$7,040,982.00
41	72	-1.54%	$331,224.00	$225,232.00	$2,614,315.00	$0.00	$2,445,803.00	$4,183,442.00	$5,060,118.00	$6,797,757.00
42	73	34.11%	$337,849.00	$229,737.00	$3,052,969.00	$0.00	$2,586,199.00	$4,317,282.00	$5,639,168.00	$7,370,251.00
43	74	20.26%	$344,606.00	$234,332.00	$3,257,078.00	$0.00	$2,733,820.00	$4,456,254.00	$5,990,897.00	$7,713,332.00
44	75	31.01%	$351,498.00	$239,019.00	$3,806,600.00	$0.00	$2,888,938.00	$4,600,521.00	$6,695,538.00	$8,407,122.00
45	76	26.67%	$358,528.00	$243,799.00	$4,367,673.00	$0.00	$3,051,891.00	$4,750,348.00	$7,419,564.00	$9,118,021.00
46	77	19.53%	$365,698.00	$248,675.00	$4,783,561.00	$0.00	$3,222,646.00	$4,905,644.00	$8,006,207.00	$9,689,205.00
47	78	-10.14%	$373,012.00	$253,648.00	$3,963,319.00	$0.00	$3,401,419.00	$5,066,350.00	$7,364,738.00	$9,029,669.00
48	79	-13.04%	$380,473.00	$258,721.00	$3,115,643.00	$0.00	$3,588,406.00	$5,232,571.00	$6,704,049.00	$8,348,214.00
49	80	-23.37%	$388,082.00	$263,896.00	$2,090,130.00	$0.00	$3,783,793.00	$5,404,262.00	$5,873,923.00	$7,494,392.00
50	81	26.38%	$395,844.00	$269,174.00	$2,141,239.00	$0.00	$3,987,498.00	$5,581,231.00	$6,128,737.00	$7,722,470.00
51	82	8.99%	$403,761.00	$274,557.00	$1,893,678.00	$0.00	$4,199,426.00	$5,764,881.00	$6,093,104.00	$7,658,559.00
52	83	3.00%	$411,836.00	$280,048.00	$1,526,298.00	$0.00	$4,419,960.00	$5,956,586.00	$5,946,257.00	$7,482,884.00
53	84	13.62%	$420,072.00	$285,649.00	$1,256,893.00	$0.00	$4,649,579.00	$6,156,244.00	$5,906,472.00	$7,413,137.00
54	85	3.53%	$428,474.00	$291,362.00	$857,662.00	$0.00	$4,888,097.00	$6,363,609.00	$5,745,760.00	$7,221,271.00
55	86	-38.49%	$437,043.00	$297,189.00	$258,723.00	$0.00	$5,134,065.00	$6,577,589.00	$5,392,788.00	$6,836,312.00
56	87	23.45%	$258,723.00	$175,932.00	$0.00	$127,202.00	$5,255,387.00	$6,628,808.00	$5,255,387.00	$6,628,808.00
57	88	12.78%	$0.00	$0.00	$0.00	$309,196.00	$5,187,314.00	$6,448,315.00	$5,187,314.00	$6,448,315.00
58	89	0.00%	$0.00	$0.00	$0.00	$315,380.00	$5,102,646.00	$6,297,485.00	$5,102,646.00	$6,297,485.00

59	90	13.41%	$0.00	$0.00	$0.00	$321,687.00	$4,997,782.00	$6,164,398.00	$4,997,782.00	$6,164,398.00
60	91	29.60%	$0.00	$0.00	$0.00	$328,121.00	$4,871,247.00	$6,008,481.00	$4,871,247.00	$6,008,481.00
61	92	11.39%	$0.00	$0.00	$0.00	$334,684.00	$4,728,653.00	$5,826,906.00	$4,728,653.00	$5,826,906.00
62	93	-0.73%	$0.00	$0.00	$0.00	$341,377.00	$4,563,834.00	$5,617,537.00	$4,563,834.00	$5,617,537.00
63	94	9.54%	$0.00	$0.00	$0.00	$348,205.00	$4,370,535.00	$5,378,504.00	$4,370,535.00	$5,378,504.00
64	95	19.42%	$0.00	$0.00	$0.00	$355,169.00	$4,144,748.00	$5,109,431.00	$4,144,748.00	$5,109,431.00
65	96	-7.03%	$0.00	$0.00	$0.00	$362,272.00	$3,886,011.00	$4,815,143.00	$3,886,011.00	$4,815,143.00
66	97	27.25%	$0.00	$0.00	$0.00	$369,518.00	$3,590,970.00	$4,492,588.00	$3,590,970.00	$4,492,588.00
67	98	-6.56%	$0.00	$0.00	$0.00	$376,908.00	$3,255,426.00	$4,139,650.00	$3,255,426.00	$4,139,650.00
68	99	26.31%	$0.00	$0.00	$0.00	$384,446.00	$2,895,148.00	$3,749,520.00	$2,895,148.00	$3,749,520.00
69	100	4.46%	$0.00	$0.00	$0.00	$392,135.00	$2,500,966.00	$3,318,782.00	$2,500,966.00	$3,318,782.00

In this scenario, the combined value of his investments is about $5,000,000, same as in the second scenario above. And… Tim's investment account is depleted at age 87, but his life insurance picks up the slack, giving him an income out to age 100, and beyond (if he lives that long).

A better option might be to only take money from his life insurance policy when he needs it, like this:

YR	AGE	HYPOTHETICAL MARKET RETURN	INVESTMENT ACCOUNT PRE-TAX WITHDRAWAL	INVESTMENT ACCOUNT AFTER TAX NET INCOME	END OF YEAR BALANCE	INCOME FROM LIFE INSURANCE	NET CASH VALUE OF INSURANCE	NET DEATH BENEFIT OF INSURANCE	TOTAL INVESTMENT + INSURANCE CASH VALUE	TOTAL INVESTMENT + INSURANCE NET DEATH BENEFIT
36	67	27.25%	$300,000.00	$204,000.00	$3,435,750.00	$0.00	$1,842,379.00	$3,582,799.00	$5,278,129.00	$7,018,549.00
37	68	-6.56%	$306,000.00	$208,080.00	$2,924,438.00	$0.00	$1,950,645.00	$3,694,287.00	$4,875,084.00	$6,618,725.00
38	69	26.31%	$0.00	$0.00	$3,693,858.00	$212,242.00	$1,840,175.00	$3,395,339.00	$5,534,033.00	$7,089,198.00
39	70	4.46%	$318,362.00	$216,486.00	$3,526,043.00	$0.00	$1,947,448.00	$3,502,154.00	$5,473,491.00	$7,028,197.00
40	71	7.06%	$324,730.00	$220,816.00	$3,427,326.00	$0.00	$2,060,429.00	$3,612,864.00	$5,487,755.00	$7,040,190.00
41	72	-1.54%	$331,224.00	$225,232.00	$3,048,422.00	$0.00	$2,179,366.00	$3,727,713.00	$5,227,788.00	$6,776,135.00
42	73	34.11%	$0.00	$0.00	$4,088,238.00	$229,737.00	$2,061,543.00	$3,441,445.00	$6,149,781.00	$7,529,684.00
43	74	20.26%	$344,606.00	$234,332.00	$4,502,093.00	$0.00	$2,179,216.00	$3,552,225.00	$6,681,309.00	$8,054,317.00

44	75	31.01%	$351,498.00	$239,019.00	$5,437,694.00	$0.00	$2,302,866.00	$3,667,225.00	$7,740,560.00	$9,104,919.00
45	76	26.67%	$358,528.00	$243,799.00	$6,433,780.00	$0.00	$2,432,761.00	$3,786,656.00	$8,866,541.00	$10,220,436.00
46	77	19.53%	$365,698.00	$248,675.00	$7,253,178.00	$0.00	$2,568,875.00	$3,910,448.00	$9,822,054.00	$11,163,626.00
47	78	-10.14%	$373,012.00	$253,648.00	$6,182,517.00	$0.00	$2,711,381.00	$4,038,552.00	$8,893,898.00	$10,221,069.00
48	79	-13.04%	$0.00	$0.00	$5,376,317.00	$258,721.00	$2,586,811.00	$3,826,845.00	$7,963,128.00	$9,203,162.00
49	80	-23.37%	$0.00	$0.00	$4,119,872.00	$263,896.00	$2,446,893.00	$3,668,496.00	$6,566,765.00	$7,788,368.00
50	81	26.38%	$0.00	$0.00	$5,206,694.00	$269,174.00	$2,290,156.00	$3,489,833.00	$7,496,850.00	$8,696,527.00
51	82	8.99%	$403,761.00	$274,557.00	$5,234,717.00	$0.00	$2,406,346.00	$3,581,841.00	$7,641,063.00	$8,816,558.00
52	83	3.00%	$411,836.00	$280,048.00	$4,967,568.00	$0.00	$2,526,443.00	$3,677,457.00	$7,494,011.00	$8,645,025.00
53	84	13.62%	$420,072.00	$285,649.00	$5,166,864.00	$0.00	$2,650,669.00	$3,776,468.00	$7,817,533.00	$8,943,332.00
54	85	3.53%	$428,474.00	$291,362.00	$4,905,655.00	$0.00	$2,778,739.00	$3,878,550.00	$7,684,395.00	$8,784,206.00
55	86	-38.49%	$437,043.00	$297,189.00	$2,748,643.00	$0.00	$2,909,425.00	$3,982,746.00	$5,658,068.00	$6,731,389.00
56	87	23.45%	$0.00	$0.00	$3,393,200.00	$303,133.00	$2,722,004.00	$3,766,562.00	$6,115,204.00	$7,159,762.00
57	88	12.78%	$454,700.00	$309,196.00	$3,314,041.00	$0.00	$2,839,242.00	$3,854,881.00	$6,153,282.00	$7,168,922.00
58	89	0.00%	$463,794.00	$315,380.00	$2,850,247.00	$0.00	$2,957,465.00	$3,945,495.00	$5,807,712.00	$6,795,741.00
59	90	13.41%	$473,070.00	$321,687.00	$2,695,956.00	$0.00	$3,076,190.00	$4,037,988.00	$5,772,146.00	$6,733,944.00
60	91	29.60%	$482,531.00	$328,121.00	$2,868,599.00	$0.00	$3,195,356.00	$4,130,699.00	$6,063,955.00	$6,999,298.00
61	92	11.39%	$492,182.00	$334,684.00	$2,647,091.00	$0.00	$3,320,782.00	$4,222,460.00	$5,967,873.00	$6,869,551.00
62	93	-0.73%	$502,025.00	$341,377.00	$2,129,407.00	$0.00	$3,448,672.00	$4,312,755.00	$5,578,079.00	$6,442,161.00
63	94	9.54%	$0.00	$0.00	$2,332,552.00	$348,205.00	$3,205,798.00	$4,031,887.00	$5,538,350.00	$6,364,439.00
64	95	19.42%	$522,307.00	$355,169.00	$2,161,794.00	$0.00	$3,306,717.00	$4,096,754.00	$5,468,511.00	$6,258,548.00
65	96	-7.03%	$532,753.00	$362,272.00	$1,514,519.00	$0.00	$3,404,275.00	$4,165,073.00	$4,918,794.00	$5,679,592.00
66	97	27.25%	$0.00	$0.00	$1,927,226.00	$369,518.00	$3,105,172.00	$3,843,736.00	$5,032,398.00	$5,770,962.00
67	98	-6.56%	$554,277.00	$376,908.00	$1,282,884.00	$0.00	$3,167,834.00	$3,892,355.00	$4,450,718.00	$5,175,238.00
68	99	26.31%	$0.00	$0.00	$1,620,411.00	$384,446.00	$2,829,374.00	$3,530,024.00	$4,449,785.00	$5,150,434.00
69	100	4.46%	$576,669.00	$392,135.00	$1,090,292.00	$0.00	$2,874,981.00	$3,546,147.00	$3,965,273.00	$4,636,439.00

In this scenario, Tim draws income from his life insurance policy the year after he suffers any kind of loss in his investments. What this does is allows him to recover and “bounce back” in his investments, thus reducing the risk of him running out of money. Investments generally perform best when investors do not cash them out, and this is especially true when those investments are losing money.

Drawing income from his retirement account after a losing year is the worst possible mistake Tim could make… a mistake Tim can avoid by using his whole life insurance policy.
And, if Tim does not spend all his savings before he dies, his life insurance policy pays a death benefit to his heirs which is many times the value of his investments, effectively allowing his heirs to recover most of the savings he spent during his lifetime.

Best of all, both the death benefit and the income from his whole life insurance policy aren’t subject to any income tax as long as he follows a few simple rules. It’s not even reportable to the IRS — something Tim really likes. It uncomplicates an otherwise complicated (and common) tax planning problem.

By strategically using his whole life insurance policy to offset losses in his retirement plan, Tim’s income increases each year, adjusted for inflation, and he never runs out of money. What’s more, Tim’s overall investment strategy performs much better than if he had not bought the insurance.

Of course, we can never know how the investments in Tim’s retirement plan will play out in the future. Maybe he does better than expected. Maybe worse.

But, in principle, the idea is the same. Tim’s whole life insurance policy removes a lot of uncertainty and risk from his life and replaces it with more certainty and stability.

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